

APPENDIX - C

FINANCIAL POLICIES

OMB 8: BUDGET ADMINISTRATION POLICY

Policy

I. Purpose.

The purpose of this policy is to assign responsibility and define the procedures for planning and administration of the City of Greenville's Operating and Capital Budgets, as well as debt management and oversight of economic development incentives, responsibility for which has been assigned to the Office of Management and Budget (OMB).

II. Operating Budget.

The annual operating budget is the vehicle through which City Council authorizes City government to fund operations during a specific fiscal year for specific purposes and which establishes the economic resources that are required to support these activities. The budget is a fiscal, planning, and policy document, reflecting the allocation of limited revenues among diverse uses.

III. Capital Budget.

The capital budget includes major capital requirements, culminating in the adoption of a five-year Capital Improvement Program (CIP). These types of capital investments usually focus on the construction, development, and acquisition of major facilities and may rely on long-term debt instruments for financing. General Fund revenue, user fees, and other streams of revenue are typical sources of revenue allocated to the retirement of long-term debt.

IV. Responsiveness to Council Areas of Focus.

Projects, programs and services included within the operating and capital budgets must be responsive to the areas of focus identified by the City Council using various processes, with the assistance and advice of the City Manager and staff.

V. Purpose of Debt.

Debt is issued as a means of allocating the expense of capital projects' use to those actually benefitting, over the useful life of the project. The City will issue debt to provide financial support to capital facility needs. The debt will be issued in a way that helps ensure the long-term fiscal health of the City. Long-term debt financing will not be used to support current operating expenditures. General obligation debt will not be used to fund enterprise activities.

Procedures**I. Revenues**

- A. The City will strive to maintain a diversified and stable revenue stream to minimize the impact of short-term fluctuations in any one revenue source.
- B. The City will establish and maintain a process for annually reviewing and analyzing each major revenue source to ensure that receipts are maximized.
- C. Whenever practicable, revenue sources will be designed or modified to allow collections to keep pace with the cost of providing the service.
- D. The City will maintain effective collection systems and aggressive enforcement strategies to maximize revenues from available sources.

II. Expenditures

- A. Essential City services and programs designed to carry out elements of the Strategic Plan will receive priority funding.
- B. The City will balance current year expenditures with current year revenues.
- C. The City will continue to support a scheduled level of maintenance and replacement of its infrastructure, including streets, sewers, stormwater, and sidewalks. Such replacement is to be made according to a designated schedule and funding availability.
- D. The City will strive to support investments that reduce future operating costs.
- E. The City's annual operating budget provides funding for recurring services with recurring revenues. While the operating budget does include funding for certain capital expenditures, the nature of such capital requires that they be planned for and replaced on a recurring basis (example: vehicles).

III. Economic Development Incentives

- A. Economic development incentives are tools used to retain or attract jobs and/or tax base. There are expenditures (some of which may be ongoing or continuous) and/or opportunity costs as well as potential or actual benefits associated with these incentives. Any such incentives adopted by the City should have specific goals and criteria that serve to define the economic benefits expected to be gained from the incentives, the conditions under which the incentives are to be granted, and the actions to be taken should the actual benefits differ from the planned benefits.
- B. For any specific economic development incentive, the economic benefit, as well as the cost of the incentive, should be measured and compared against the goals and criteria that have been previously established.

IV. Strategic Planning

- A. Annually, in advance of preparing the Operating and Capital Budgets, the City Manager will engage the City Council in discussions of issues facing the City to determine areas of focus that the City Council would like to address with appropriate action. Possible actions could consist of appropriations, development or redevelopment priorities, specific initiatives, policy development, and/or directed research needed to fuel further discussion.
- B. The areas of focus identified in Council discussions will be documented in a Strategic Plan adopted by Council
- C. Through preparation and discussion of the City's operating and capital budgets, the City Manager, OMB and department heads will make recommendations for actions needed to address the Strategic Plan.

V. Operating Budget Process

- A. OMB will develop and promulgate procedures and a schedule for development of a proposed operating budget, which must be submitted to City Council by May 1 of each fiscal year.
- B. City Council must approve the budget by July 1 each year, prior to any expenditure being made in the new fiscal year.

VI. Operating Budget Administration

- A. Departmental Accountability
 - 1. Budget accountability rests primarily with the operating departments of the City. In accomplishing the programs and objectives for which the budget was authorized, **department heads ensure that their respective budgets stay within the prescribed funding levels.**
 - 2. For each assigned account, the department must stay within budget by each major expense category of personnel, operating, and capital. Within each of these three categories, the department may exceed the available balance in an element/object code if the department head ensures that a sufficient balance exists in another element/object code within the same expenditure category. Departments are not authorized to use salary savings to purchase unbudgeted items or to cover overruns in operating/capital expenditures, without approval by the OMB Director.
 - 3. Budget transfers within the same department or fund are used during the fiscal year as City priorities develop and change and to accurately reflect a department's expenditure needs between divisions and bureaus. Budget transfers between accounts within the same department must be approved by the Budget Analyst. Budget transfers between funds must be authorized by the OMB Director.

B. OMB supports budget accountability by:

1. Providing accurate, detailed regular expenditure reports to departments/divisions.
2. Ensuring that purchases are legal and appropriate and are charged to the proper account code.
3. Auditing expenditures on a regular basis and advising departments of any current or pending expenditure overrun of a significant amount; at any time during the fiscal year.
4. Reporting to the City Manager significant budget issues that emerge as a result of auditing or significant budget variances that cannot be reconciled with the agency responsible for incurring the variance.

C. Supplemental Appropriations (Budget Amendments)

1. Due to changing project scope or external factors that are beyond the control of City departments, cost increases may occur after Council adopts the operating budget.
2. After determining that there are insufficient funds within a department's budget to finance an activity or acquisition, the department head, after consultation with OMB and the City Manager, will develop a Request for Council Action proposing a supplemental appropriation and will forward the Request to OMB for review. After review, OMB will forward OMB's recommendation to the City Manager and will inform the requesting department head of any adverse recommendation from OMB. If the City Manager approves the proposal, the City Manager will place the Request on a future Council Meeting agenda for consideration.

VII. Performance Measures

- A. A key responsibility of the City government is to develop and manage services, programs, and resources as efficiently and effectively as possible, and to communicate the results of these efforts to the public. Meaningful performance measurements assist in identifying financial and program results, evaluating past resource decisions, and facilitating qualitative improvements in future decisions regarding resource allocation and service delivery options.
- B. OMB, working with departments will develop financial, service, and program performance measures for incorporation into Council discussions of Strategic Planning. Performance measures will:
 1. Be based on progress towards a goal or area of focus identified in the Strategic Plan.
 2. Measure program results or accomplishments as well as efficiency and effectiveness.

3. Provide for comparisons over time to facilitate exploration of continuous improvement.
4. Be reliable, verifiable, and understandable.
5. Be reported annually, both internally and externally.
6. Be monitored and used in decision-making processes.
7. Be limited to a manageable number of meaningful measures that can be used to track achievements, impacts, and outcomes of key projects or services.
8. Valid measures will be developed on a service-by-service basis, to gauge the City's relative success in the efficient and effective delivery of services and to facilitate continuous improvement.

VIII. Fund Balance.

- A. Pursuant to City Ordinance, City Council will set aside in a designated reserve 20% of the next year's General Fund appropriations.
- B. It is the longer-term goal of the City Council to have 25% of General Fund appropriations set aside in a designated reserve. Once the 25% target is reached, the City may appropriate the excess for capital improvements and other non-recurring expenditures.
- C. The OMB Director shall prepare the necessary reports and documents to document the degree of compliance with this fund balance policy.

IX. Capital Improvement Program (CIP).

- A. OMB will annually develop and promulgate procedures and a schedule for development of a proposed CIP, to be submitted to City Council by February 15 of each fiscal year.
- B. Pursuant to City Ordinance, City Council is required to approve the CIP and Capital Budget by April 15th of each fiscal year to allow sufficient time for OMB to incorporate debt service and other operating expenses into the annual operating budget.
- C. The impact of the CIP on the annual operating budget is reflected in:
 1. Debt service payments on any general obligation, or revenue bonds that may be issued to finance capital improvements.
 2. Staffing and other operating expenses that may be required once a capital facility is completed.
- D. CIP Development
 1. Capital investments are generally defined as having a useful life of three years or more and whose cost exceeds \$100,000.

2. The City establishes an appropriate mix of bonded debt and pay-as-you-go financing in the funding of capital projects.
3. Projects included in the CIP must be consistent with the City's Strategic Plan.
4. Facilities whose construction or acquisition results in new or substantially increased operating costs are considered only after an assessment indicates a clear need for the project and that recurring resources for funding the increased operating costs are available. All projects submitted to Council for approval shall include a fiscal impact analysis, including the projected annual operating (if any), the funding source recommended for support of the operating expense and the amount of increase, if any, over existing annual funding for the same or similar projects.
5. The following criteria are used to evaluate the relative priority of a proposed project:
 - a. Consistency with the Strategic Plan and other long-term plans adopted by City Council
 - b. Community and economic development impact, including return on investment (leverage).
 - c. Impact on tax base.
 - d. Geographical area of City served.
 - e. Impact on health, safety, and welfare of citizens.
 - f. Availability of external funding sources.
 - g. Opportunity for joint participation with another party, such as the federal or state government, another political subdivision, non-profit organization or private entity providing a coordinating private development.
- E. All proposals for the expenditure of capital funds are formulated and presented to Council within the framework of a CIP. Except in circumstances of an extraordinary opportunity or emergency, appropriations of capital funds will not be considered outside the CIP process.
- F. OMB will prepare a regular status report on active projects approved in the CIP.
- G. Annually, OMB will review the status and timing of projects approved in the CIP to determine the projects remain a priority and, if not, whether funds associated with lower-priority CIP projects could be reprogrammed to address emerging priorities.

H. Debt Management

1. Long-term debt originates from the adoption of a Capital Improvement Plan which identifies capital project needs, funding sources, and the debt instrument(s) required to finance the plan. Generally, capital projects financed through the issuance of bonds are financed for a period not to exceed the useful life of the facility or equipment.
2. To the extent practicable, the City will establish user fees to finance the capital costs of enterprise-type services or activities to avoid imposing a burden on the property tax levy.
3. Ongoing communications with bond rating agencies will be maintained, and a policy of full disclosure on every financial report and bond prospectus will be followed.
4. The amount of debt issued by the City will comply with applicable State Statutes.
5. State law provides that general obligation bonds shall be sold through a competitive sale. All other bonds may be sold either through a competitive sale or through a negotiated sale. The City's policy is that the competitive method of sale will be chosen when conditions favoring this method of sale are present. Such conditions include the following:
 - a. The market is familiar with the issuer, and the issuer is a stable and regular borrower in the public market.
 - b. There is an active secondary market with a broad investor base for the issuer's bonds.
 - c. The issue has an unenhanced credit rating of A or above or can obtain a credit enhancement prior to the competitive sale.
 - d. The issue is neither too large to be easily absorbed by the market nor too small to attract investors without a concerted sales effort.
 - e. The issue is not viewed by the market as carrying complex or innovative features or requiring explanation as to the bonds' soundness.
 - f. Interest rates are stable, market demand is strong, and the market is able to absorb a reasonable amount of buying or selling at reasonable price changes.
6. When a negotiated bond sale is selected because conditions do not allow for a competitively bid bond sale, the City will adhere to the following standards:
 - a. Promote fairness in a negotiated sale by using a competitive underwriter-selection process that ensures that multiple proposals are considered.

- b. Ensure that outside professional assistance is available to assist in structuring the issue, pricing, and monitoring sales activities.
 - c. Avoid using a firm to serve as both the financial advisor and underwriter of an issue.
7. Advance refunding may be used to achieve interest cost savings, remove or change burdensome bond covenants, or restructure the stream of debt service payments to avoid a default. The effectiveness of an advance refunding will be determined by the achievement of a minimum net present value savings.